

**IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF SAN FRANCISCO**

Ana Morales, et al.

Plaintiffs,

v.

Associates First Capital Corporation, et al.

Defendants.

Judicial Council
Coordination
Proceeding No. 4197

The Honorable
Richard A. Kramer

NOTICE OF PROPOSED CLASS ACTION SETTLEMENT AND SETTLEMENT HEARING ("NOTICE")

TO: (A) ALL CUSTOMERS OF THE ASSOCIATES* WHO PURCHASED CREDIT INSURANCE IN CONNECTION WITH A REAL ESTATE-SECURED OR PERSONAL LOAN ORIGINATED BY THE ASSOCIATES BETWEEN DECEMBER 1, 1995 AND NOVEMBER 30, 2000, AND

(B) ALL CUSTOMERS OF THE ASSOCIATES* WHO REFINANCED WITH THE ASSOCIATES BETWEEN DECEMBER 1, 1995 AND NOVEMBER 30, 2000 A REAL ESTATE-SECURED LOAN ORIGINATED BY THE ASSOCIATES.

** "The Associates" means Associates First Capital Corporation, Associates Corporation of North America and all their subsidiaries and affiliates, including TranSouth, First Family, and Kentucky Finance, as they existed prior to the merger with Citigroup Inc. on November 30, 2000.*

**Usted puede ser elegible para recibir una compensación. Para obtener información en español,
llame sin cargo al 800-395-0451.**

THIS NOTICE MAY AFFECT YOUR RIGHTS. PLEASE READ IT CAREFULLY!

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1. WHY SHOULD I READ THIS NOTICE?

This Notice has been mailed to you because the records of The Associates may show that you: (a) purchased credit insurance in connection with a real estate-secured or personal loan originated by The Associates between December 1, 1995 and November 30, 2000; and/or (b) refinanced with The Associates between December 1, 1995 and November 30, 2000 a real estate-secured loan originated by The Associates. Therefore, you (and any co-borrowers on your loans) may be eligible to receive money (a "redress payment") from a proposed Settlement of the Federal Trade Commission (FTC) and certain class action cases filed against The Associates. Please share this Notice with any co-borrowers on your loans.

This Notice describes the lawsuits against The Associates, your rights under the proposed Settlement, and the date and time of a public Fairness Hearing that will be held by the San Francisco County Superior Court to consider the fairness of the proposed Settlement. Although the Fairness Hearing is proceeding in California, the proposed Settlement covers persons nationwide.

2. WHAT ARE THESE LAWSUITS ABOUT?

These lawsuits were filed by the FTC and various individual borrowers, including representative borrowers suing on behalf of a nationwide Class (the "Plaintiffs"). These lawsuits seek money damages and other relief from The Associates and certain of its affiliates.

The Plaintiffs have filed an Amended Consolidated Class Action Complaint in this case (“National Class Complaint” or “National Class Case”). The National Class Complaint alleges that The Associates violated the Consumer Legal Remedies Act and engaged in other wrongdoing in the sale of credit insurance in connection with real estate-secured and personal loans. The National Class Complaint also asserts claims in connection with The Associates’ refinancing of real estate-secured loans.

On March 6, 2001, the FTC also filed a complaint (“FTC Complaint”) against The Associates and certain of its affiliates. The FTC Complaint charges that The Associates violated Section 5 of the Federal Trade Commission Act and other laws in connection with the sale of credit insurance and other practices.

Prior to the FTC Complaint, certain Plaintiffs’ Counsel filed certain other cases against The Associates and certain of its affiliates for claims arising out of refinancing or sale of credit insurance. These complaints were filed in Texas [*Carter v. Associates Fin. Svcs. Co., et al.*, No. 96-04652 (Dist. Ct. Dallas County)]; New Jersey [*Gras v. Associates First Capital Corp.*, Docket No. 52,442 (Super. Ct. of N.J., Atlantic Div.)]; Arizona [*Siemer v. Associates Fin. Svcs. Co., et al.*, No. 97-281-TUC-JMR-JCC (D. Ariz., Tucson Div.)]; Missouri [*Watson v. Associates Fin. Life Ins. Co.*, No. 002-00424 (Cir. Ct. for the City of St. Louis)]; and Illinois [*Robinson v. Associates Fin. Life Ins. Co.*, No. 01-L-206 (Cir. Ct. for Madison County)]. In April 2002, certain Plaintiffs’ Counsel filed a class action against The Associates in Tennessee [*Burnes v. Associates Fin. Ins. Co.*, No. CH-02-0814-2 (Chancery Court, TN)]. Collectively, these cases (other than the Texas case) are referred to as the “Other Class Cases.”

The individual representative plaintiffs in the National Class Case and the Other Class Cases and their Counsel have agreed to settle the National Class Case and dismiss the Other Class Cases pursuant to the terms set forth in Section 4 below. The proposed Settlement also resolves allegations in the FTC Complaint.

Defendants have denied and continue to deny each and all of the claims and contentions alleged in the National Class Complaint, FTC Complaint, and complaints in the Other Class Cases.

On September 19, 2002, the Plaintiffs and the Defendants submitted to the Court a proposed settlement of this action that would: (1) create a fund to return money to borrowers who bought credit insurance in connection with loans made by The Associates over a five-year period between December 1, 1995 and November 30, 2000 (the “Class Period”), and (2) create a fund to return money to borrowers whose Associates real estate-secured loans were refinanced, or “flipped,” by The Associates during the Class Period. The complete details of the proposed Settlement are contained in a Settlement Agreement (also called a Stipulation of Settlement) between the Plaintiffs and the Defendants. The proposed Settlement must be approved by the Court to ensure that it is fair, reasonable, and adequate. The proposed Settlement will only become effective if approved by the Court.

3. WHO IS COVERED BY THE PROPOSED SETTLEMENT?

You are covered by the Settlement if you meet the definition of the Credit Insurance Sub-Class and/or the Refinance Sub-Class as described in this Section, and you have not requested exclusion as described in Section 7 below:

The Credit Insurance Sub-Class is defined as follows: All customers of The Associates in the United States, Puerto Rico and the Virgin Islands who purchased credit insurance in connection with a real estate-secured or personal loan originated by The Associates during the Class Period, except: (i) customers who purchased a credit insurance product but then canceled it and obtained a full premium refund; and (ii) customers who have released, individually or as part of a class, any and all claims related to credit insurance purchased in connection with loans originated by The Associates, including but not limited to such releases in connection with the North Carolina Attorney General’s settlement with The Associates (publicly announced on September 6, 2001), *Darden v. Ford Consumer Fin., Inc.*, No. E-62360 (Super. Ct., Fulton County, Georgia), and *Wood v. Associates*, No. CV-97-1-3977-35 (Super. Ct., Cobb County, Georgia).

The Refinance Sub-Class is defined as follows: All customers of The Associates in the United States who refinanced with The Associates during the Class Period a real estate-secured loan originated by The Associates, except: (i) customers who have released, individually or as part of a class, any and all claims against The Associates in connection with refinancing or alleged “flipping” of real estate-secured loans originated by The Associates in connection with any state, federal or private legal action, or any other matter; and (ii) employees of Defendants and The Associates.

You may be a member of the Refinance Sub-Class and or the Credit Insurance Sub-Class.

4. WHAT ARE THE TERMS OF THE PROPOSED SETTLEMENT?

The following is only a summary of the terms and conditions of the proposed Settlement. For more information, you may obtain a copy of the Settlement Agreement by writing to Co-Lead Counsel, whose names and addresses are listed in Section 9 of this Notice, or online at <http://www.ftc.gov/theassociates> and/or www.gilardi.com.

The proposed Credit Insurance Settlement will create a \$215 million Redress Fund for the benefit of the Credit Insurance Sub-Class (the “Credit Insurance Redress Fund”). The FTC will be in charge of the Credit Insurance Redress Fund, which will be administered by Gilardi & Co., LLC, a program administrator selected by the FTC. A significant factor in obtaining the \$215 million settlement is the existence of the National Class Case. Pursuant to the Settlement Agreement, certain Class Members will have an opportunity to participate in the Credit Insurance Redress Program and potentially receive money from the Credit Insurance Redress Fund based upon the amount of insurance premium paid in conjunction with the purchase of credit insurance on Associates loans

during the Class Period. Certain funds will be deducted from the Credit Insurance Redress Fund to pay administrative costs associated with administering the Credit Insurance Redress Fund.

For the Refinance Sub-Class, Defendants have agreed to establish a fund of \$25 million to be distributed through a Class Redress Program that will be established and submitted to the Court for approval (the "Refinance Redress Fund"). Like the Credit Insurance Redress Program, the Refinance Redress Program will be administered by Gilardi & Co. Defendants shall deposit the \$25 million into an interest bearing escrow account. The interest on the fund is intended to pay administrative costs associated with administering the Refinance Redress Fund, including the costs of this Notice.

The proposed Settlement will only become effective if approved by the Court. If the proposed Settlement is approved, the Court will enter a judgment releasing and discharging the Defendants from all claims which were or could have been asserted by Class Members who have not requested exclusion from the Class.

5. HOW WILL THE SETTLEMENT FUNDS BE DISTRIBUTED?

The redress funds will be distributed to Class Members in each Sub-Class as follows:

The Credit Insurance Sub-Class. The Credit Insurance Redress Fund will be distributed to borrowers who are members of the Credit Insurance Sub-Class according to a formula determined by the FTC. In order to distribute the Credit Insurance Redress Fund in a reasonable and cost-effective manner, the FTC plans to use the following formula: If you are a Credit Insurance Sub-Class Member, you will be eligible to receive money from the Credit Insurance Redress Fund based upon the credit insurance premium(s) you paid with your Associates loan(s).

The amount of money you receive will depend on the amount you paid for credit insurance and the number of consumers who participate in the Credit Insurance Redress program. The FTC expects that the total credit insurance premiums paid by Sub-Class Members who choose to participate in the redress program will exceed the amount in the Credit Insurance Redress Fund. In that case, Sub-Class Members will be paid on a pro rata basis; that is, the money they receive will be equal to only a portion of their credit insurance premiums.

For example, if the paid premiums for all consumers who participate in the settlement program total \$400 million, but only \$200 million is available in the Credit Insurance Redress Fund (after deducting administrative costs), a borrower who paid a \$2,000 credit insurance premium on a real estate-secured loan could expect to receive a redress payment of approximately \$1,000, or 50% of the full amount of their credit insurance premium; similarly, a borrower who paid a \$200 credit insurance premium on a personal loan could expect to receive about \$100. Joint borrowers, such as a husband and wife, will receive only a single redress payment per loan. Borrowers who had more than one Associates loan will be eligible for a redress payment for each loan.

Many Sub-Class Members will receive their money by check. Other Sub-Class Members whose loans remain open will receive a reduction in their loan balance. Sub-Class Members will have to agree to cancel any existing credit insurance coverage on their Associates-originated loan in order to receive their money.

The Refinance Sub-Class. Plaintiffs' Counsel will submit for court approval a plan to equitably distribute the Refinance Redress Fund to members of the Refinance Sub-Class. The distribution will occur according to a formula to be determined that will provide for a reasonable distribution and a minimum of administrative costs.

The formula will be based on a pro rata redress payment of the total points paid, above a specified limit, for loans refinanced during the Class Period. The amount of money to be paid to individual members of the Refinance Sub-Class will depend on the number of persons participating in the Refinance Redress Fund.

Many Sub-Class Members will receive their money by check. Other Sub-Class Members whose loans remain open may receive a reduction in their loan balance.

6. WHAT DO I NEED TO DO TO PARTICIPATE IN THE SETTLEMENT?

You do not have to do anything right now. Watch your mailbox for further notices from the administrator, Gilardi & Co. However, if you change your address, please notify Gilardi & Co. by writing to them at P.O. Box 808011, Petaluma, CA 94975-8011 or calling them toll-free at 800-395-0451. If you have not received a further notice by May 31, 2003, please contact Gilardi & Co. at the address and phone number listed above.

Note: Your obligation to make payments on your current loan is not affected by this settlement.

7. CAN I EXCLUDE MYSELF FROM THE SETTLEMENT?

Yes. If you exclude yourself from the Credit Insurance Sub-Class, you will **not** receive any payment from the Credit Insurance Redress Fund, and you will **not** be bound by the Final Order and Judgment which may be entered dismissing these lawsuits against the Defendants. Similarly, if you exclude yourself from the Refinance Sub-Class, you will **not** receive any payment from the Refinance Redress Fund, and you will **not** be bound by the Final Order and Judgment which may be entered dismissing these lawsuits against the Defendants. You will be free to pursue whatever legal rights you may have by pursuing your own lawsuit against the Defendants at your own risk and expense.

If you are a member of both the Credit Insurance and Refinance Sub-Classes, you may choose to be excluded from one but not the other Sub-Class. You may also choose to exclude yourself from both Sub-Classes altogether.

To exclude yourself from one or both Sub-Classes, you must send a Request for Exclusion by first-class mail, postage prepaid, to Gilardi & Co. at: P.O. Box 808011, Petaluma, CA 94975-8011. Your Request for Exclusion must be in writing and postmarked by February 7, 2003.

To be effective, a request for exclusion must include: (a) the name of this National Class Case as it appears on the caption of this Notice; (b) your name, address and telephone number; (c) information identifying your loan or loans, such as the loan number, date of loan, amount of loan, and address of the property; (d) a statement that you and all other borrowers named on your promissory note are seeking exclusion; (e) your signature and the signature of all other borrowers named on the promissory note; (f) if you are acting on behalf of another person or entity, documentation (such as a power of attorney) sufficient to show your authority to act on behalf of that person or entity; and (g) the name of the Sub-Class(es) (Credit Insurance and/or Refinance) from which you are excluding yourself.

If the request for exclusion is not timely submitted, you will be included automatically in the Class and you may be eligible to receive redress payments from the Credit Insurance Redress Fund or the Refinance Redress Fund. You also will be legally bound by the proposed Settlement, including provisions releasing the Defendants, as more fully described in the Settlement Agreement.

8. WHY, WHEN AND WHERE WILL THE FAIRNESS HEARING BE HELD?

A hearing will be held before the Honorable Richard A. Kramer of the San Francisco County Superior Court, Department 304, 400 McAllister Street, San Francisco, California, on February 27, 2003 at 9:30 am (the "Fairness Hearing"). There is no need for you to attend the Fairness Hearing if you simply wish to participate in the proposed Settlement. The purpose of the Fairness Hearing shall be to determine, among other things: (a) whether the terms and conditions of the Stipulation of Settlement are fair, reasonable and adequate, (b) whether the National Class case should be certified as a class action and the individual representative plaintiffs in the National Class Case (the "Named Plaintiffs") are adequate representatives of the Class, (c) whether Plaintiffs' Counsel are entitled to attorneys' fees and, if so, how much, and (d) whether the Final Order and Judgment should be entered dismissing the National Class Case with prejudice and on the merits against the Plaintiffs and all Class Members of the Class (except for those persons who timely and properly request to be excluded from the settlement).

The Court has the power to adjourn or reschedule the Fairness Hearing from time to time without further notice of any kind.

Any Class Member who does not request exclusion from the Class may move the Court for permission to appear as a named class co-representative.

Any Class Member who has not filed a timely written request for exclusion and who wishes to object to the proposed Settlement must provide to Plaintiffs' Co-Lead Counsel, Defendants' Counsel, FTC Counsel and file with the Court, not later than 20 days before the Fairness Hearing or as the Court may otherwise direct, a statement of his/her objection, as well as a specific statement in support of each objection.

Any Class Member or his/her attorney intending to make an appearance at the Fairness Hearing must (i) file a notice of appearance with the Clerk of Court no later than 20 days before the Fairness Hearing, or as the Court may otherwise direct, and (ii) serve same on Plaintiffs' Co-Lead Counsel, Defendants' Counsel, and FTC Counsel, not later than 20 days before the Fairness Hearing a copy of the same.

All such objections, papers and briefs shall expressly refer to the name of this National Class Case as it appears on the caption of this Notice, as well as the judge and case number. All written objections must clearly identify the name and address of the Class Member making the objection and shall provide documentation demonstrating that the person making the objection is in fact a Class Member. All written objections also must clearly identify any and all witnesses, documents and other evidence of any kind that are to be presented at the Fairness Hearing in connection with such objections and shall further set forth the substance of any testimony to be given by such witnesses, if any. The pertinent addresses are as follows:

(i) Plaintiff's Co-Lead Counsel:

Joseph W. Cotchett, Esq.
Niall P. McCarthy, Esq.
Cotchett, Pitre, Simon,
& McCarthy, LLP
San Francisco Airport Office Center
840 Malcolm Road, Suite 200
San Francisco, CA 94010

Melvyn I. Weiss, Esq.
Paul D. Young, Esq.
Milberg Weiss Bershad Hynes
& Lerach, LLP
One Pennsylvania Plaza
New York, NY 10119-0165

(ii) Defendants' Counsel:

Andrew L. Sandler, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

John B. Sullivan, Esq.
Severson & Werson
A Professional Corporation
One Embarcadero Center, 26th Floor
San Francisco, CA 94111

(iii) FTC Counsel:

Lucy E. Morris, Esq.
Division of Financial Practices
Bureau of Consumer Protection
Federal Trade Commission
600 Pennsylvania Ave., NW, Mail Drop NJ-3158
Washington, DC 20580

(iv) Court:

San Francisco County Superior Court
Clerk of Court
400 McAllister Street
San Francisco, California 94102

Any Class Member who does not comply with these requirements shall be deemed to have waived such objection and shall be forever foreclosed from making any objection to the proposed Settlement.

9. WHO REPRESENTS THE PLAINTIFFS?

The Class is represented by Co-Lead Counsel:

Joseph W. Cotchett, Jr., Esq.
Niall P. McCarthy, Esq.
Cotchett, Pitre, Simon, &
McCarthy, LLP
San Francisco Airport Office Center
840 Malcolm Road, Suite 200
San Francisco, CA 94010

Melvyn I. Weiss, Esq.
Paul D. Young, Esq.
Milberg Weiss Bershad Hynes &
Lerach, LLP
One Pennsylvania Plaza
New York, NY 10119-0165

The FTC is a federal law enforcement agency acting in the public interest.

10. WHAT ARE COUNSELS' REASONS FOR SETTLEMENT?

Plaintiffs' Counsel have agreed to settle the National Class Case and Other Class Cases after considering, among other things, (i) the substantial benefits available to Plaintiffs and the Class under the terms of this Settlement Agreement; (ii) the attendant risks and uncertainty of litigation, especially in complex litigation such as this, as well as the difficulties and delays inherent in such litigation; and (iii) the desirability of consummating the Stipulation of Settlement promptly to provide effective relief to Plaintiffs and the Class.

This court has not ruled on the merits of the claims or defenses in this case, and Defendants have denied and continue to deny each and all of the claims and contentions alleged by Plaintiffs in the National Class Case and the Other Class Cases. Defendants expressly have denied and continue to deny all charges of wrongdoing or liability against them arising out of or relating to any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the National Class Case and the Other Class Cases. Defendants also have denied and continue to deny the allegations that Plaintiffs and Class Members have suffered damage or were harmed by the conduct alleged in the National Class Case and the Other Class Cases. Nonetheless, Defendants and their counsel have concluded that further conduct of litigation would be protracted and expensive and would not be in the best interest of Defendants, and that it is desirable that the National Class Case and the Other Class Cases be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation of Settlement.

11. HOW WILL PLAINTIFFS' COUNSEL'S FEES AND EXPENSES BE PAID?

Plaintiffs' Counsel will make an application to the Court for approval of an award of Attorneys' Fees and Expenses in the National Class Case. The fees and expenses will be between \$20 and \$25 million as determined by the JAMS Mediators, the Honorable Eugene F. Lynch (Ret.) and the Honorable Daniel Weinstein (Ret.). The Attorneys' Fees and Expenses will be paid by the Defendants separately and not from the Credit Insurance Redress Fund and the Refinance Redress Fund. The payment of fees to Plaintiffs' Counsel will in no way reduce the money available to the Class.

12. ARE ANY INDIVIDUAL BORROWERS RECEIVING ADDITIONAL COMPENSATION?

Reasonable incentive awards may be paid to the Named Plaintiffs who have asserted refinancing claims from the Refinance Redress Fund. Named Plaintiffs in the National Class Case and Other Class Cases who have asserted only credit insurance claims

may also be paid incentive awards separate from the Refinance and Credit Insurance Redress Funds. Subject to Court approval, Named Plaintiffs will receive incentive awards of \$5,000 each.

13. WHAT CLAIMS WILL BE RELEASED IF THE SETTLEMENT IS APPROVED BY THE COURT?

If approved by the Court, the proposed Settlement will be legally binding upon all Class Members who did not request exclusion from the Class. The proposed Settlement will release and discharge The Associates and related entities from all known and unknown claims for damages and other relief in connection with all purchases of credit insurance in connection with a real estate-secured or personal loan originated by The Associates between December 1, 1995 and November 30, 2000 and in connection with the refinancing by The Associates between December 1, 1995 and November 30, 2000 of a real estate-secured loan originated by The Associates.

All other individual and class cases against The Associates in which one or more of Plaintiffs' Counsel is counsel of record, including, but not limited, to the Other Class Cases, shall be dismissed with prejudice by the Final Settlement Date; provided, however that the Arizona Case class members whose loans originated between January 1, 1983 and November 30, 1995 shall be compensated separately outside the Credit Insurance Redress Fund on the same terms as similar Credit Insurance Class Members who purchased credit life insurance in connection with a loan originated with The Associates during the Class Period.

If you or someone acting on your behalf are currently litigating similar claims against The Associates, either individually or as part of a class, you may be barred from pursuing such claims if you do not timely exclude yourself from the class. You should consult with an attorney concerning your rights.

14. WHAT IF THE SETTLEMENT IS NOT APPROVED BY THE COURT?

If the proposed Settlement is not approved by the Court as being fair, reasonable, and adequate, the Settlement Agreement will be null and void and Plaintiffs will proceed with their lawsuits. The Plaintiffs and Defendants could also attempt to enter into another settlement agreement.

15. WHERE DO I GET ADDITIONAL INFORMATION?

This Notice is only a summary of the proposed Settlement and does not describe all of the details of the Settlement Agreement and other papers filed in these lawsuits. Accordingly, Class Members are referred to the Stipulation of Settlement and the other documents filed with the Court in this action, all of which are available for inspection at the office of the Clerk of the San Francisco County Superior Court, 400 McAllister Street, San Francisco, California 94102, or online at <http://www.ftc.gov/theassociates> and/or www.gilardi.com or 800-395-0451.

16. WHAT ARE THE RELEVANT DATES?

If you simply wish to participate in the proposed Settlement, you do not need to do anything now. You will receive further notification (probably within the next five months) if the proposed Settlement is approved and the Credit Insurance Redress Fund and Refinance Redress Fund are distributed. If you wish to request exclusion from the Class or appear at the Fairness Hearing, these are the relevant dates:

- Deadline for mailing request for exclusion: **February 7, 2003**
- Deadline for filing and serving notice of appearance or objection: **February 7, 2003**
- Date of Fairness Hearing: **February 27, 2003**

PLEASE DO NOT CONTACT THE COURT OR THE CLERK'S OFFICE OR DEFENDANTS FOR INFORMATION.

This Notice provides only a summary of matters about these lawsuits. You may seek the advice and guidance of your own private attorney, at your own expense, if you wish. You may also contact Plaintiffs' Co-Lead Counsel at the address listed in Section 9, above.

BY ORDER OF THE COURT

The Honorable Richard A. Kramer
Judge of the San Francisco County Superior Court
State of California

Dated: November 13, 2002